

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
**Two Gateway Center**  
**Newark, NJ 07102**  
**[www.bpu.nj.us](http://www.bpu.nj.us)**

IN THE MATTER OF THE PETITION OF DIECA	)	<u>TELECOMMUNICATIONS</u>
COMMUNICATIONS, INC. D/B/A COVAD	)	
COMMUNICATIONS COMPANY FOR	)	<u>ORDER OF APPROVAL</u>
APPROVAL OF A PLEDGE OF ASSETS,	)	
GUARANTEE, AND DEBT FINANCING IN	)	DOCKET NO: TF01110783
CONNECTION WITH TRANSACTIONS UNDER	)	
CERTAIN FINANCING ARRANGEMENTS	)	

Norris, McLaughlin & Marcus, P. A. James H. Laskey, Esq. Somerville, New Jersey,  
Counsel for DIECA Communications, Inc. d/b/a Covad Communications Company.

Fred S. Grygiel, Chief Economist, Mark C. Beyer, Manager, Leo M. Lim, Supervising  
Accountant, Office of the Economist on behalf of the Staff of the Board of Public  
Utilities

**BY THE BOARD:**

DIECA Communications, Inc. d/b/a Covad Communications Company ("DIECA" or Petitioner), a Virginia corporation and a public utility subject to the jurisdiction of the Board, filed a petition on November 16, 2001, pursuant to N.J.S.A. 48:3-7 and 48:3-9, requesting approval of a pledge of assets and guarantee in connection with related financing arrangements between DIECA's parent company, Covad Communications Group, Inc. ("CCG") and SBC Communications, Inc. ("SBC"), and approval to borrow up to \$75 million in additional funds, which may be secured by purchase money or leased financing.

Petitioner is authorized to provide local exchange and interexchange services in the State of New Jersey pursuant to the Board's Order of Approval issued on November 4, 1998 in Docket No. TE98060350.

Under the financing arrangements, CCG and certain of its subsidiaries, including Petitioner, have entered into agreements with SBC, in which SBC will be investing \$50 million in CCG in exchange for a promissory note and a \$75 million prepayment for the services of DIECA and Covad Communications Company, DIECA's sister company. In connection with these Agreements, CCG, its subsidiaries and SBC are entering into a collateral arrangement in which CCG and certain of its subsidiaries, including DIECA, will grant perfected, first priority security interests in their respective assets to SBC. In addition, certain subsidiaries of CCG, including DIECA, will serve as guarantors to secure CCG's and its subsidiaries' obligations under the

Agreements. The collateral arrangements also permit Petitioner to borrow \$75 million in additional funds, which may be secured through purchase money or leased financing.

Accordingly, the Board, after investigation, having considered the record submitted in this proceeding, being satisfied with the action proposed to be taken by Petitioner as indicated above and finding that the transaction is to be made in accordance with law and is not contrary to the public interest, and approving the purposes thereof, HEREBY ORDERS that DIECA Communications, Inc. d/b/a Covad Communications Company is HEREBY AUTHORIZED to participate in the financing arrangements described herein.

This Order is issued subject to the following Provisions:

1. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
2. Petitioner shall semiannually file statements for the amounts and use of the proceeds pursuant to N.J.A.C. 14:1-5.9(b).
3. This Order shall not affect, or in any way limit the exercise of the authority of this Board, or of the State, in any future petitions or in any proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation, or any other matters affecting the Petitioner.
4. Notwithstanding anything to the contrary in the documents executed pursuant to the financing arrangements approved hereunder or other supporting documents, a default or assignment under such agreement does not constitute automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq., where applicable.

5. The authority granted in this Order shall become null and void and of no effect with respect to any portion thereof which is not exercised by December 31, 2002.

DATED: January 23, 2002

BOARD OF PUBLIC UTILITIES  
BY:

[SIGNED]  
FREDERICK F. BUTLER  
ACTING PRESIDENT

[SIGNED]  
JEANNE M. FOX  
PRESIDENT DESIGNEE

[SIGNED]  
CAROL J. MURPHY  
COMMISSIONER

[SIGNED]  
CONNIE O. HUGHES  
COMMISSIONER

ATTEST:

[SIGNED]  
HENRY M. OGDEN  
ACTING BOARD SECRETARY